



County of Los Angeles

Child Care Planning Committee

222 South Hill Street, 5th Floor, Los Angeles, CA 90012

Ph. (213) 974-4103 • Fax (213) 217-5106

www.lacountychildcare.org



Peggy Sisson
Chair
Rosa Arevalo
Vice-Chair

January 9, 2007

Members

Layla Abou-Taleb
Cristina Alvarado
Yolanda Arias, Esq.
Wendy Bass
Susan M. Baxter
Michelle Cerecerez
Fran Chasen
Yvonne Chavez
Amy Cooper
Kathy Cooper-Ledesma
Carlene Davis
Lesbia De La Fuente
Sandra Dennis
Manuel Fierro
Sandra Gallegos
Carol Hiestand
Jan Isenberg
Wilma Kiel
Pamela Kwok
Craig Lancaster
Leticia Lara
Sheri Lewis
Norma C. Lopez
Pat Mendoza
Sandra Menendez
Carolyn Muller
Alice Murphy
Catherine Pedrosa
Dianne Philibosian, Ph.D.
Marie Kanne Poulsen, Ph.D.
Nellie Rios-Parra
Maria A. Rochart, Ph.D.
Brenda Ross
Ancelma Sanchez
Corinne Sanchez
Pamela Schmidt
Lorraine Schrag
Sheri Senter
JoAnn Shalhoub-Mejia
Adelina Ruth Sorkin
Emilio Sosa
Wendy Tseng
JoEllen Tullis
Mary Helen Vasquez
Alicen Vera
Robert Wiltse
Patrice Wong

To: Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Peggy Sisson, Chair 
Los Angeles County Child Care Planning Committee

PLAN FOR MONITORING THE ALLOCATION OF STATE PRESCHOOL FUNDS IN LOS ANGELES COUNTY

On August 22, 2006, your Board approved a motion by Supervisor Knabe directing the Child Care Planning Committee (Planning Committee) to develop a plan for monitoring the allocation and utilization of State Preschool funds in Los Angeles County. This document and its attached appendices respond to the key questions posed in that directive and form the Planning Committee's recommendations on how to monitor State Preschool funding in Los Angeles County. Every effort has been made to be both precise and concise. However, the child care funding arena is fraught with a variety of complications. The Planning Committee members and staff are available to field your questions or those of your staff.

Key Questions and Data Collection

To develop a plan that met the stipulations of the Board motion, the Planning Committee determined that additional information was necessary. Information was sought to answer the following questions:

- How does the California Department of Education, Child Development Division (CDE/CDD) allocate new State Preschool funds?
- How much State Preschool funding has been allocated and utilized in Los Angeles County over the last three years?
- How much State Preschool funding goes unearned each year?
- Why are State Preschool funds not fully earned each year?
This last question is addressed in Appendix B.

Staff

Laura A. Escobedo
Child Care Planning Coordinator

Data was compiled from five sources:

1. Specific fiscal reports were requested of CDE/CDD;
2. Standard Quick Reports prepared by CDE/CDD;
3. Records from the Los Angeles Centralized Eligibility List (LACEL);
4. A survey of LACEL families conducted in the summer 2006; and
5. Responses to a survey sent to all State Preschool contractors in Los Angeles County;

Appendix A describes the results of the survey of LACEL families and its implications for the demand for part-day preschool services.

How are Preschool Funds Allocated by CDE/CDD?

When new funds become available for State Preschool services, CDE/CDD allocates funds to the counties, using a formula which includes child population and the current level of funding available in each county. The formula to determine the allocation of funds under the new Pre-Kindergarten and Family Literacy Program (PKFLP) recently authorized by AB 172, is based on the number of schools with Academic Performance Indicator scores of 1-3. Fifty million dollars are available Statewide and \$13,655,323 has been allocated for use in Los Angeles County. Applications for these funds will also be scored based on whether the area to be served also falls into a high need area as determined by the Planning Committee's annual review of priorities for State funding.

State Preschool Funding Allocated and Utilized in Los Angeles County

Contracts for State Preschool funds include a Maximum Reimbursable Amount (MRA) which must be "earned" by means of the enrollment and attendance of eligible children. If insufficient numbers of children are enrolled or attending, then the contractor may not earn the full contract amount, despite their expenditures. Unearned contract funds go unused in that fiscal year.

Each year, CDE/CDD reviews earnings of all contracts and identifies contractors that have earned less than 95 percent of their MRA. Contractors have an opportunity to explain why their earnings fell below 95 percent and CDE staff makes recommendations to CDD Fiscal whether to continue or to reduce the MRA of specific contracts. Recommendations to reduce a contract are generally made only when there is a pattern of significant under-spending by the contractor.

Over the past three years, contract reductions in Los Angeles County have totaled \$2,763,029, which is approximately ten percent of the actual unearned funds:

- FY 2004-05 - 27 contractors faced reductions in their MRA, based on previous year's enrollments and earnings. CDE proposed reductions amounting to over \$7 million dollars. Eleven contractors experienced reductions, totaling \$1,930,265.
- FY 2005-06 - 17 contractors faced reductions totaling \$4,380,011. Actual reductions were imposed on five contractors, totaling \$114,859.

- FY 2006-07 – 19 contracts were recommended for contract reductions totaling \$3,321,385. Actual reductions for eight contractors, totaled \$717,905.

Monitoring the Allocation and Use of State Preschool Funding

The Planning Committee, with your Board's approval, will implement the following steps to monitor both the allocation and utilization of State Preschool and PKFLP funding in Los Angeles County.

- The Planning Committee will use CDE/CDD Quick Reports to track funding allocated to contractors serving Los Angeles County.
- At the end of the fiscal year, the Planning Committee will request that CDE/CDD provide it with:
 - Information on contractors serving families in Los Angeles County that earned less than 95 percent of their State Preschool or PKFLP contracts,
 - CDD staff recommendations to reduce contract amounts, and
 - Actual contract reductions.
- When reductions are implemented, the Planning Committee will request CDE/CDD to consult with them on decisions to re-allocate carryover or reduced contract funds. Currently the funds are automatically re-bid to serve the same area. In some cases, they would be better utilized in other parts of the County.

The Planning Committee will report back to your Board in January 2008, on the allocation and utilization of State Preschool and PKFLP funding in Los Angeles County for fiscal year 2006-07. The January report back date is necessary to allow for programs to provide audited financial information.

In addition, the Planning Committee will investigate the allocation and earnings of full-day child development services, to learn if these contractors are experiencing similar patterns of under-earning. The Planning Committee will also research the experiences of San Mateo and San Francisco Counties, which have secured legislative waivers to allow county level decision regarding the allocation of CDE funds.

It may be appropriate to keep the Los Angeles County State Legislative Delegation informed regarding the child care and development needs of Los Angeles County families and the capacity to meet those needs.

Each Supervisor
January 9, 2007
Page 4

Conclusion

The Planning Committee believes that child care and development programs should be designed to meet the needs of eligible families, rather than expecting families to accommodate the convoluted nature of child care funding. With your Board's support, this effort to monitor the allocation and utilization of child care subsidies in Los Angeles County will provide concrete information on how the administration of these funds can be modified to meet the evolving needs of children and families. We look forward to providing your Board and CDE with these findings in January 2008. I am available to answer any questions that you or your staff may have. I can be reached at (626) 744-6939, or your staff may contact Laura Escobedo, staff to the Planning Committee at (213) 974-4102 or lescobedo@cao.lacounty.gov.

PS:LE:aa

Attachments (2)

c: Executive Officer, Board of Supervisors
Auditor-Controller

Availability and Need for Preschool Funding in Los Angeles County

There are 93 contractors currently providing half-day, part-year State Preschool services to children who are three and four-years of age in Los Angeles County. State Preschool is funded by the California Department of Education (CDE). The following chart describes the type of organizations operating State Preschool programs under contract with CDE.

Type of Organization	Number of Contractors
School Districts (including LACOE)	39
Community Based/Private Organizations	34
Colleges	12
Head Start Agencies	5
Alternative Payment Agencies	2
City	1

For Fiscal Year 2006-07, the total of State Preschool funds allocated to Los Angeles County is \$93,443,166. This represents 38 percent of State Preschool funds available Statewide. State Preschool accounts for 12.8 percent of all the child development funds coming into Los Angeles County from CDE for direct services. Approximately 26,000 children can be served with these State Preschool funds if they are fully earned. Preschool-age children are also served in other half-day programs such as Head Start, estimated to serve 22,000 three and four-year olds and Los Angeles Universal Preschool which has added approximately 1,500 new spaces for four-year olds.

Distribution of State Preschool Funds

Estimated State Preschool Funding and Enrollment by Service Planning Area (SPA)			
SPA	Funding *	Potential Children Served**	Percent of Total Potential Children Served
1	\$ 3,438,166	957	3.7 %
2	\$ 11,446,546	3184	12.4 %
3	\$ 22, 229,898	6184	23.8 %
4	\$ 12,548,374	3491	13.4 %
5	\$ 1,815,514	505	1.9 %
6	\$ 12,028,452	3346	12.9 %
7	\$ 17,398,890	4840	18.6 %
8	\$ 12,537, 326	3488	13.4 %

* This is an approximate distribution since several contractors have sites in more than one SPA.

** The number of children is an approximation based on the current reimbursement rate of 19.97/day per child and an average of 180 days of operation. There is some slight variation in rates, and programs may operate from 175 days per year (minimum) to 250 days per year. The number of potential children served assumes full utilization of all contract funds. Usually, a percentage of contractors under-earn their contracts, which means that the number of children served is fewer than the potential number served.

Reimbursement Issues

There are hundreds of State Preschool sites, most serving children in double sessions, one in the morning and a second session in the afternoon. Thus a site that is licensed for 36 children may actually be serving 72.

While the reimbursement rates for State Preschool (\$19.97 child/day) are lower than for full-day child care and development programs (\$30.04 child/day), contractors operating double sessions earn nearly \$40 a day for eight hours of operation. Teacher requirements and staff to child ratios are the same for State Preschool and other CDE funded child development programs. State Preschool programs can operate with a single shift as opposed to full-day child development programs which require multiple shifts in order to cover a 10 to 12 hour day. This creates a fiscal incentive to provide the half-day preschool program since the costs are less and the reimbursement rate is greater on a per day/per space basis. At the same time, there is a significant unmet demand for full-day child development services.

Pre-Kindergarten and Family Literacy Program (PKFLP)

In November, CDE issued the Request for Proposal for the new Pre-Kindergarten and Family Literacy Program (PKFLP) which was authorized by AB 172 in 2006. This program closely resembles the current State Preschool in which its purpose is to provide kindergarten preparedness opportunities to increase a child's readiness for school. Only children who are four-years old on or before December 2, 2006, and whose families earn at, or below 75 percent of the State Median Income (SMI), may be served. The program regulations allow no more than 20 percent of the slots to be used by children from families whose income exceeds the income eligibility limits. The areas targeted for these services are served by elementary schools with Academic Performance Indicator (API) scores in the bottom three deciles, as well as having been designated as high priority areas by each county's Local Planning Council (Child Care Planning Committee in Los Angeles County [Planning Committee]).

A total of \$50 million has been allocated for the PKFLP. Using a formula which included the number of schools with API scores of 1 through 3, the CDE has allocated \$13,655,323 PKFLP funds for use in Los Angeles County. These funds will be disbursed to successful applicants throughout Los Angeles County based on the criteria described above.

Similarly to State Preschool, PKFLP will operate 175 to 180 days or approximately 600 hours per academic year. An additional \$5 million has been set aside Statewide to allow a limited number of programs to provide the full-day service. Funding for full-day programs will be determined by lottery among interested applicants.

A recent survey of current State Preschool contractors asked if they intended to apply for the new PKFLP funding. Of the 37 contractors responding to this question, 19 (51%) indicated that their organizations would not be applying for the new funding.

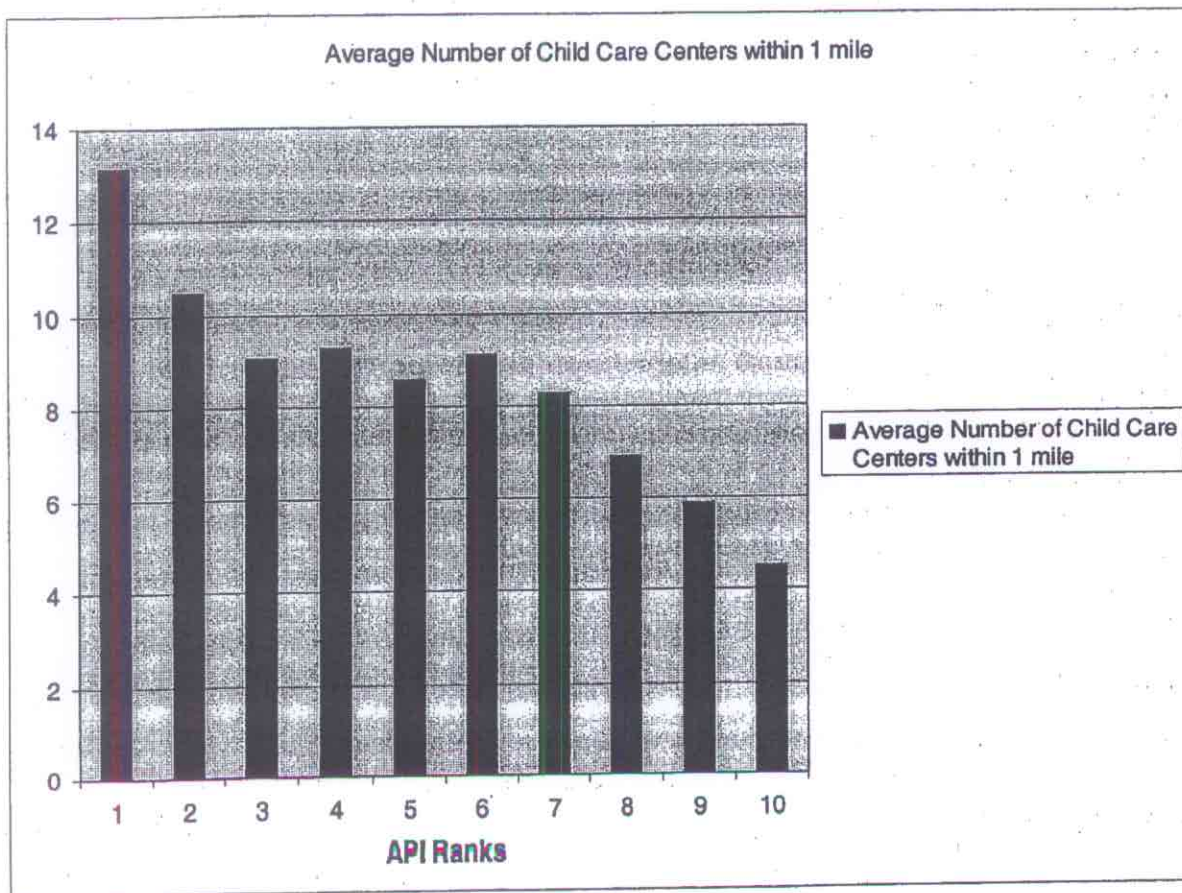
The reasons given are as follows:

- Insufficient numbers of eligible children (25%)
- Insufficient facilities (25%)
- Families need other types of care (21%)
- No schools with low API Ranks in service area (9%)
- Program not needed at this time (5%)

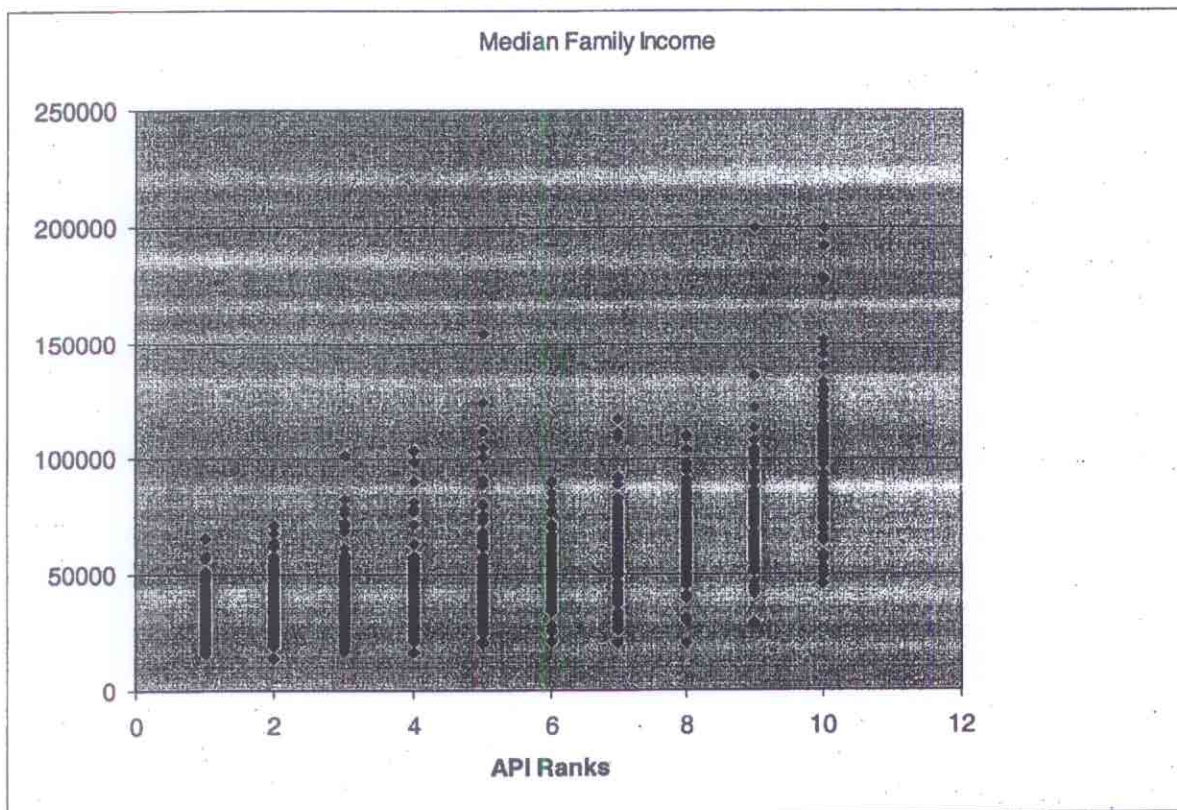
It should be noted that of the 19 organizations declining to apply for the new PKFLP, seven have preschool programs that are fully enrolled and do not have a history of under-earning their contracts.

The Need for Preschool Programs in Los Angeles County

A mapping exercise conducted by the Planning Committee with the assistance of the Urban Research Unit of the Service Integration Branch, Chief Administrative Office looked at the number of currently operating programs serving preschool age children located within one mile of each school with an API rank of 1, 2, or 3. The results indicate that on average, there are 13 preschool programs within a mile radius of each of these schools. Schools with API ranks of 10 had an average of four preschool programs near by.



A second graph was developed that looked at median family income per census tract in relation to the API scores of the schools serving the census tracts. In this chart, the higher the median income, the higher the API rank; the lower the median income, the lower the API rank. It appears from this data that income is a much more telling indicator of school test scores than the availability of preschool programs. It also raises questions about what type of preschool programs are effective in preparing children for school and what the schools are doing to build on any Pre-Kindergarten preparation children have experienced.



Los Angeles County Centralized Eligibility List (LACEL) Data and the Need for Part-Day Preschool Services

As of December 27, 2006, there were 30,997 families registered for subsidized child development services on LACEL, including 37,847 parents. Of these, 97 percent were working, seeking work, or pursuing education or job training. The majority of these parents reported a need for full-time care; and even those who did not, needed care that was more flexible than the typical preschool program which operates 3.5 hours each morning or each afternoon.

A survey of a representative sample (2,000) of LACEL families was conducted by the Research and Evaluation Unit of the Service Integration Branch during the summer

of 2006, to which 700 families responded. If the family had a three or four-year old child, the survey asked about kindergarten preparedness and preschool preferences. If parents were currently using some form of child care, they were asked if they thought their children were better prepared for kindergarten because of the current arrangements. Over 75 percent of those responding (335) said "yes". This despite the fact that half of these children were with friends, family, neighbors, and older siblings to meet their child care needs.

When asked what type of care they would prefer specifically for their three or four-year old, the responses were:

- Half-day preschool program 13%
- Full-day preschool program 75%
- Trusted family member with flexible hours 11%

The overwhelming response from these families was for full-day preschool. It should also be noted that, based on the sample, it appears there are thousands of children who will never have a formal preschool experience prior to entering kindergarten since their families are using license-exempt care. Here is a population that may well need the opportunity for an enriched preschool experience but cannot take advantage of such programs if they do not address other family needs, i.e. for full-day, etc.

State Preschool Survey

State Preschool contractors responding to a survey conducted by the Planning Committee in December 2006 indicated that their communities needed the following types of services:

- Full-day (all ages) 24
- Full-day (preschool) 4
- Infant/Toddler care 10
- School-age care 3
- Half-day preschool 5
- Family Literacy Program 1

Head Start Agency Survey

The Child Care Resource Center in the San Fernando Valley conducted a survey of 300 Head Start parents during the fall of 2005. When asked what their child care needs were for the children in the Head Start program, the top three needs were full-day care (32%), part-day care (29%), and before and/or after Head Start care (18%). This meant that 50 percent of the families needed a child development option that covered more than the traditional half-day preschool program.

Unearned Funds and California Department of Education Fiscal Policy

In any given year, 50-66 percent of State Preschool contractors under-earn their contracts. This occurs when a contractor is unable to enroll sufficient numbers of eligible children for a specified number of days. For example, an agency may be contracted to serve 100 children for 180 days at \$19.97/day. The Maximum Reimbursable Amount (MRA) of that contract would be \$359,460. However, if the agency is unable to identify 100 eligible children and only enrolls 90 children, the MRA earned would be \$323,514. In this case the agency would "under-earn" their contract by \$35,946.

Based on the reports provided by the California Department of Education (CDE), Child Development Fiscal office, 78 contractors (75%) in Los Angeles County have under-earned their contracts in at least one fiscal year between 2003-2006. The total amount of funds allocated for service that went unspent during this period was \$27,804,726. The following chart indicates the number of contractors not fully earning their contract amounts and the unearned amounts for each of the fiscal years:

Fiscal year	Number of contractors	Unearned funds
2003-04	53	\$11,305,403
2004-05	48	\$ 6,492,322
2005-06	62	\$10,007,001

Reasons for Under-Earning

Contracts are under-earned for a variety of reasons. Based on contractor survey responses and information provided by CDE, the following section summarizes the primary reasons that State Preschool contracts are frequently under-earned:

- When organizations are awarded a new contract or a large contract expansion, there is a start-up period which involves site preparation, recruiting new children, and sometimes recruiting qualified staff. All of these activities are conducted following the execution of a contract, but before services are provided. As a result, the services are provided for only a portion of the contract year. This frequently results in under-expenditures and under-earning of contract funds. The expectation is that the under-earning would not continue in subsequent years. However, in some cases it may take two to three years to reach enrollment goals. Seven contractors (18%) responding to the State Preschool survey stated that they failed to serve the expected number of children due to start-up and facilities issues. For example, one respondent indicated it took a much longer to license a new center than anticipated. Another indicated that there was no room to place portable classrooms on school sites and consequently, the organization could not serve any more children despite the increased the contract.

- Enrollments vary year to year. A contractor may plan to enroll 24 children for each class per year. However, in any given year, enrollment may fall short by one or two children in each class. This results in a percentage of the contract being unearned. In another year, the Program may reach full enrollment. Several contractors appear to have uneven patterns of earnings over the three year period which was examined.
- Forty-one contractors reported consistently "over-earning" their contracts. In this situation, the contractor provides more service (child/day) than the contract requires. This implies that the funds required to provide the additional services are coming from a source other than CDE. In most cases the contractor does not have another source to cover these costs. The idea is to come as close as possible to earning the full MRA, but not to go over that amount. For some contractors coming within two or three percent of the full MRA is as close as they can get without risking over-earning. Thus, a few contracts will consistently be under-earned by one to five percent per year. CDE considers this reasonable and does not consider contract reductions for these contractors.
- Contractors responding to the State Preschool survey reported that they have had trouble finding eligible children to enroll. Nine contractors (23%) specifically stated that they had difficulty finding enough children who were age and income eligible. One contractor reported that the agency has attained full enrollment only by enrolling an increasing number of three-year olds which is allowable under the current State Preschool guidelines, although four-year olds have priority for enrollment. Eight contractors (20%) stated that there are eligible children in their service areas but the families in the community they serve need full-day care and cannot use a half-day program. Four contractors (10%) specifically stated that they have competition from other providers of preschool programs in the same community.
- Two contractors stated that they had failed to enroll the expected number of children due to insufficient numbers of qualified staff.

Carryover Funds

When funds are given to the contractors and the contractors do not "earn" them completely, they return to the State as "carryover" and can be used for any purpose. CDE must negotiate with the Department of Finance to retain and use these funds for child development related purposes. If even half of the contractors in Los Angeles County under-earn their contracts by only 3 percent, it means that each year, at least \$1.4 million would revert back to the State. These funds could be re-allocated to other service sectors, in other parts of the State. While this pattern of under-earning would not trigger contract reductions, there is little incentive for agencies to risk incurring the financial liability associated with "over-earning" their contracts.

Contract Reductions

When contract amounts are reduced, the reduced funds are re-allocated through an Request for Proposal (RFP) process. The intent is to use the funds to provide services in the same County served by the reduced contracts; but that does not always happen. These contract reductions must be used for the same type of program, i.e. State Preschool.

Suspension Funds

Recently CDE has developed a process that is an alternative to contract reductions and can be used in certain circumstances. This process allows CDE to hold contract funds in suspension. This means the funds are allocated but not disbursed to a contractor until the contractor can demonstrate they are able to earn all of the funds. If the funds are not likely to be earned, CDE retains them. These suspension funds do not revert back to the general fund. The suspension account strategy helps CDE retain control over more of the dollars allocated for child development.

Terminated or Returned Contracts

In the case of terminated or returned contracts, the funds are reserved for use in the County to which they were disbursed. The funds would have to be used for the same purpose (program type) and to serve the same area (zip codes). The funds are disbursed to a new agency through an RFP process. There is sometimes a gap between the time a contract is given up or taken back and when a new contract can be issued following an RFP. It is possible that a year or more may pass; however, CDE usually attempts to find an interim operator/administrator in order to continue the services.